ADMINISTRATIVE COSTS BY PIHPs, CMHSPs, AND CONTRACTED ORGANIZED PROVIDER SYSTEMS

(FY2007 Appropriation Bill - Public Act 330 of 2006)

July 1, 2007

Section 460: (1) The uniform definitions, standards, and instructions for the classification, allocation, assignment, calculation, recording, and reporting of administrative costs by prepaid inpatient health plans (PIHPs), CMHSPs, and contracted organized provider systems that receive payment or reimbursement from funds appropriated under section 104 of part 1 that are established by the department shall go into effect on October 1, 2006 and shall be fully implemented by September 30, 2007. (2) No later than October 30, 2006, the department shall provide a copy of the uniform definitions, standards, and instructions to the house of representatives and senate appropriations subcommittees on community health, the house of representatives and senate fiscal agencies, and the state budget director. (3) The department shall provide the house of representatives and senate appropriations subcommittees on community health, the house of representatives and senate fiscal agencies, and the state budget director with 2 separate progress reports on the implementation required under subsection (1). The progress reports are due on April 1, 2007 and July 1, 2007.

Michigan Department of Community Health

MDCH

Jennifer M. Granholm, Governor
Janet Olszewski, Director

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH
MENTAL HEALTH AND SUBSTANCE ABUSE ADMINISTRATION

P. A. 330 of 2006, SECTION 460 REPORT

Cost Allocation for the Public Mental Health System
July 1, 2007

Background:

The public mental health system is comprised of 46 community mental health services programs (CMHSPs) that manage services and supports for over 200,000 people with serious mental illnesses, serious emotional disturbance, and developmental disabilities. Eighteen of those CMHSPs are prepaid inpatient health plans (PIHPs) that manage the Medicaid specialty services and supports. The PIHPs are a combination of standalone CMHSPs and affiliations of smaller CMHSPs. Both CMHSPs and PIHPs have a variety of methods for delivering services: some contract out all services, while others have a mix of contractual services, and those that they deliver themselves.

CMHSPs are established and governed by the Michigan Mental Health Code (The Code). The Code mandates recipient eligibility for services, the required array of services, and recipient protections. In addition, The Code prescribes a number of administrative activities that are unique to the public mental health system, such as completing an annual community needs assessment, operating a recipient rights office, collaborating with local human service agencies, supporting a board of directors, maintaining local dispute resolution processes, and operating a quality improvement system. Other core administrative activities performed by CMHSPs, such as finance, payroll, human resources, billing/claims payment, and information technology are typical of most businesses.

PIHPs were established as part of Michigan's 1915(b) Medicaid managed care waiver for specialty services and supports. As such, they are considered managed care organizations by the federal Centers for Medicare and Medicaid Services (CMS) and must be compliant with the federal Balanced Budget Act of 1997 (BBA). The BBA mandates that the PIHPs are responsible for provider network management, service authorization and utilization management, claims payment, access management, customer services, appeal and grievance systems, information technology, quality management, risk management and compliance monitoring. As with CMHSPs and other businesses, PIHPs must perform certain core administrative functions as listed above.

CMHSPs and PIHPs subcontract some or all of service delivery and/or administrative functions to other entities: CMHSPs to large provider networks as well as to small "mom and pop" group homes; and PIHPs to CMHSP affiliates, Substance Abuse Coordinating Agencies (CAs), and large provider networks. Detroit-Wayne CMH was required by the 1915(b) waiver to competitively procure Medicaid service providers and as a result six managed comprehensive provider

networks (MCPNs) won the bid. The MCPNs perform the BBA-mandated administrative functions listed above and subcontract with providers to deliver services. Oakland County Community Mental Health Authority chose to take a similar approach by subcontracting with "core providers" that perform BBA-mandated administrative functions and subcontract with providers to deliver services. MDCH is designating as "prime subcontractors" CMHSP affiliates and CAs, Detroit Wayne's MCPNs and Oakland's "core providers."

MDCH has been reporting CMHSP administrative costs in response to Section 404 for at least a decade. MDCH provided definitions of administrative functions that gave guidance in distinguishing between "board administration" and services. However, it allowed "program administration" to be added to the service costs. In 2004, MDCH required the PIHPs to report "Medicaid managed care administration" and provided guidance in distinguishing the functions of Medicaid managed care administration that had been developed by the Encounter Data Integrity Team (EDIT). MDCH found in both reports, CMHSP and PIHP, a wide degree of variability in reported percentage of total expenditures that were administrative. EDIT analyses of the reasons for the variability revealed accounting practices that, while they were in compliance with federal accounting standards, were very different across the state.

Methodology

Acts 154 of 2005 and 330 of 2006, Section 460 required that MDCH establish uniform definitions, standards, and instructions for the classification, allocation, assignment, calculation, recording and reporting of administrative costs by PIHPs, CMHSPs and contracted organized provider systems that receive funds appropriated under Act 154, Section 104, in consultation with representatives of the CMHSPs.

The Mental Health and Substance Abuse Administration staff selected representatives from the CMHSPs to join them and MDCH Budget and Finance staff in a "Cost Allocation Team" to complete the work. The team developed a two-phase approach: Phase I began in October 1, 2006 and required that PIHPs and CMHSPs submit annual cost allocation plans and six months and full year cost allocation reports that address their costs as well as those of their prime subcontractors. Phase II targets the remaining contracted organized provider systems and begins October 1, 2007.

Phase I

After the team developed the Phase I process, MDCH issued a letter on October 5, 2006 to executive directors and finance directors of PIHPs and CMHSPs announcing the implementation of the cost allocation process with definitions and cost allocation instructions to be used in conjunction with the Office of Management and Budget (OMB) Circular A-87 accounting standards; and the templates and instructions for reporting the administrative and direct service costs to MDCH. MDCH also held an informational session October 31, 2006 for

executive directors, and a technical training on November 6, 2006 for finance officers. Phase I reporting requirements were attached to the Section 460 boilerplate report submitted to the Legislature on October 30, 2006.

MDCH received the PIHPs' and CMHSPs' cost allocation plans on February 28, 2007. The Cost Allocation Team reviewed the plans using a set of criteria (See Attachment A). While all PIHPs and CMHSPs submitted cost allocation plans, the quality and comprehensiveness varied greatly. In May 2007, MDCH sent PIHPs and CMHSPs feedback on their plans, requesting submission of missing information. MDCH will hold a session for PIHPs and CMHSPs on July 23 to provide guidance in how better to complete their 2008 plans that are due September 30.

The first six-months Cost Allocation Reports for the period October 1, 2006 to March 31, 2007 are due June 30. The reports will be compared to the cost allocation plans, and the financial status reports. Feedback on the adequacy of the reports will be sent to the PIHPs and CMHSPs. Full year reports, the first of which is due January 31, 2008, will be reviewed as part of the new compliance audit.

Phase II

Phase II, to commence October 1, 2007, applies a similar approach to the contracted organized provider systems. The Cost Allocation Team conducted a session on December 1, 2006 with CMHSPs, PIHPs and providers to learn about concerns and potential challenges for reporting administrative costs from the subcontracting providers. Keeping the providers' concerns about reporting burden in mind, the Team decided to use information from the Internal Revenue Service (IRS) Form 990 that private non-profit organizations use to report program services expenses (Line 13) and management and general expenses (Line 14). For-profit and governmental entities will be required to submit a statement to the CMHSPs and PIHPs attesting to their administrative costs, using the definitions of administration and direct service costs that are contained in Phase I. Small sole proprietors are exempt from this reporting. The first reports from CMHSPs and PIHPs that contain a schedule with information on administrative costs of subcontract providers will be due January 31, 2009. Administrative costs of subcontract providers will not be added to the administrative costs of the CMHSPs or PIHPs.

The Phase II draft requirements are in Attachment B of this report.

Next Steps

Phase II requirements will be included in the CMHSP and PIHP contracts for FY08. Training for CMHSPs and PIHPs on Phase II will take place in early 2008.

MICHIGAN DEPARTMENT OF COMMUNITY HEALTH
MENTAL HEALTH AND SUBSTANCE ABUSE ADMINISTRATION

CRITERIA FOR REVIEW SECTION 460 COST ALLOCATION PLANS
March 2007

Review of cost allocation plan submitted by: [*CMHSP or PIHP]*		
For the fiscal year ended September 30, 2007		
Reviewer:		
A.	Organizational items that must be included in the cost plan:	
	1.	Signed certification
	2.	Organization chart
	3.	General narrative describing the organization
	4.	PIHP or CMHSP
	5.	Affiliation or standalone
	6.	Identifies counties served
	7.	Description of relationship to the county
	8.	Any direct/indirect county charges in costs
	9.	Description of the accounting system
	10.	Description of how staffing costs are handled
	11.	Description of the Substance Abuse Coordinating Agency arrangement
B.	Cost allocation components that must be included:	
	1.	Basis of allocation
	2.	Projected costs and/or an approved budget
	3.	Schedule of costs for the 460 report
	4.	Descriptions of services provided
C.	Section on allocated services or administrative costs must include:	
	1.	Cost centers
	2.	Each cost center's expense items
	3.	Programs receiving services
	4.	Distribution methods used
	5.	Summary of the allocations
	6.	Methods for assigning costs to funding sources
	7.	Schedules of costs assigned to funding sources

SECTION 460 COST ALLOCATION REPORTING

Phase II: Cost Allocation and Reporting by Subcontractors of PIHPs, CMHSPs and Prime Subcontractors

Phase II of the Section 460 Cost Allocation Process focuses on certain subcontractors who provide **direct mental health services to the consumers** of PIHPs, CMHSPs and their prime subcontractors (as defined in Phase I). Phase II does not require a prospective cost allocation plan for subcontractors, but does require that PIHPs and CMHSPs submit a sub-schedule to their annual year-end cost allocation report that contains the information required herein. In order to reduce the data-collecting burden for PIHPs and CMHSPs, this report was designed to utilize existing information to the extent available. For example, for non-profit providers, information from the Internal Revenue Service 990 form, that they are required to submit annually, will be used. Other providers will complete an attestation statement annually. Contractors who declare on the attestation statement that they are "sole proprietors" are exempt from distinguishing between direct service costs and administrative costs. The PIHPs and CMHSPs should list them on the sub-schedule as sole proprietors and may report all revenues going to them as direct service costs. State facilities are not included in this Phase II reporting.

Targeted Subcontractors

PIHPs and CMHSPs shall report on the Section 460 Cost Allocation sub-schedule according to the following:

1. **Non-profit organizations**: report total payments from the PIHP, CMHSP or prime subcontractor to the organization for direct services, then the amounts from line 13 and line 14 from the organization's IRS Form 990.

2. **For profit and governmental units**: report total payments from the PIHP, CMHSP or prime subcontractor to the organization for direct services, then the amount of direct service expenditures and administration provided in their annual attestation. These entities are to be instructed to use the Section 460 Cost Allocation definition of direct service costs and administrative costs.

3. **Sole proprietors**: report as direct service costs the total payments from the PIHP, CMHSP or prime subcontractor to the proprietor for direct services.

Definitions:

1. Direct mental health services: those covered services that are reported via CPT or HCPCS codes as encounters. They also include services provided face-to-face to mental health consumers or prospective mental health consumers such as outreach, crisis intervention, prevention, and peer-delivered that do not result in encounter reporting.

2. For-profit corporations: may include residential, day program, home health, hospitals, private clinical service providers, private universities and colleges, etc.

3. Governmental units: include transportation authorities, intermediate school districts, public universities and community colleges.

4. Non-profit organizations or corporations: typically those organizations that have 501c.3 status and report on the IRS 990 form. They include supports services providers, some community hospitals, housing/residential service providers, day programs, sheltered workshops, employment service organizations, etc.

5. Sole proprietors and partnerships: include practitioners (e.g., clinicians, professionals), some fiscal intermediaries, and some group home operators (e.g., “mom-and-pop”).

ABC COMMUNITY MENTAL HEALTH SERVICES PROGRAM
Contractor Attestation Statement
For Services Provided in the Fiscal Year Ended _____

COMPANY XYZ Tax ID Number 123-45-6789
123 Main Street
Anywhere, Michigan 12345

Our records indicate that you received $ [PIHP insert amount] for the provision of direct care services to our community mental health consumers during the fiscal year October 1, 200X and September 30, 200X. We are requesting confirmation of your tax status and additional financial information to comply with the State of Michigan reporting requirements.

Please indicate your tax status:

_____ Sole proprietor [No further financial information is required in this statement].

_____ Partnership $_____
Please identify the total amount of revenue received from us that was used for "direct services" to our community mental health consumers as defined in the attached Cost Allocation Diagram.

_____ Non-Profit (501.c.3 "Tax Exempt") organization, that is required to report on the IRS Form 990 annually. [No further financial information is required in this statement].

_____ Governmental Entity $ _____
Please indicate the total amount of revenue received from us that was used for "direct services" to our community mental health consumers, as defined in the attached Cost Allocation Diagram.

_____ For-profit, not sole proprietor $ _____
Please indicate the total amount of revenue received from us that was used for "direct services" to our community mental health consumers, as defined in the attached Cost Allocation Diagram.

I certify that I am authorized to sign on behalf of the above named entity and that this is an accurate statement of direct expenditures for the reporting period. Appropriate documentation is available and will be maintained to support this disclosure.

Signature _____ Date _____

Printed Name _____ Title _____

COST ALLOCATION DIAGRAM

Note: PIHPs, CMHSPs, their prime subcontractors, and for-profit providers must define all allowable costs (either directly or through allocation) as either "Direct Service" or "Administration." To be considered an allowable cost, the cost must meet the guidelines defined per OMB Circulars A-87 and 122, the Medicaid Provider Manual or the Mental Health Code.

DIRECT SERVICES

ALL CONTRACT OR DIRECTLY OPERATED SERVICES AND SUPPORTS REPORTED AS ENCOUNTERS TO MDCH DATA WAREHOUSE (THE COST OF THESE INCLUDE FACE-TO-FACE ACTIVITIES AND COLLATERAL ACTIVITIES PERFORMED ON BEHALF OF BENEFICIARY). NOTE THAT FISCAL INTERMEDIARY SERVICES ARE NOW REPORTED AS ENCOUNTERS**.**

Other General Direct Services (not reported as encounters)
- Prevention (not individual-specific)
- Outreach (might include homeless projects)
- Crisis Intervention
- Peer Delivered (not reported as encounter)

Allocated Overhead (examples)
- Building costs (including building security)
- Utilities
- Travel/vehicles
- Clerical
- Equipment (furniture, telephone, personal computer – cabling, server, router, software)
- Medical records – electronic or otherwise
- Supplies
- Training on specific service
- Immediate/first-line supervisors

ADMINISTRATION

All functions and activities that are not "direct services" above

Staff (examples)
- Executive Director
- Management/non-immediate supervisory staff
- Human Resources staff
- Budget, Finance and Accounting staff
- Reimbursement staff
- Training staff
- Customer Services staff
- Recipient Rights staff
- Utilization Management staff
- Quality Improvement staff
- Information System staff (+ network mgmnt, help desk, security)

Line Items (examples)
- Legal, audit, consultation services
- Advisory councils and committees
- Accreditation and licensing fees
- Association membership fees
- County indirect
- Subscriptions

Allocated Overhead (examples)
- Building costs
- Utilities
- Travel/vehicles
- Clerical
- Equipment (personal computer, furniture, fax, telephone)
- Supplies
- Training and conferences related to administrative functions